PSBs continue to decline-Here is the reason

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The just-released data for FY17, from RBI, shows, they have lost share in the critical CASA segment—current and savings accounts. (Reuters)

Given how capital is going to remain scarce for most of the second-tier public sector banks, it is only to be expected they will cede share in the loan market to private sector lenders. As RBI's Financial Stability Report notes, public sector banks continued to lag their peers in credit growth between March and September. They don't seem to have cashed in on the growth in mortgages which are typically safer loans and with smaller risk weights.

Moreover, their profitability ratios have been negative since March, 2016, the FSR points out. While the clean-up of their books, currently in progress, as also a recapitalisation by the government will no doubt help state-owned lenders, they need to assert themselves a lot more if they are going to report better return ratios in the future. Importantly, they need to ensure they don’t lose customers’ deposits because that will hurt their margins. The just-released data for FY17, from RBI, shows, they have lost share in the critical CASA segment—current and savings accounts. It has fallen to 41.9%, the lowest in at least ten years. Since CASA deposits are the cheapest of resources, any loss of share leaves banks less competitive. To be sure, private sector lenders were always expected to gain share which they have been doing steadily to hit 24.7% in 2016-17 from 16.6% at the end of 2006-07. They have added share both in the government and household segments while holding on to their share with private companies. That they are being increasingly preferred by households is not surprising since they are typically more efficient and offer a better online banking product but the share addition in the government segment at 650 basis points is indeed creditable and shows how pro-active they are. Since PSU banks have bigger branch networks and also are more trusted by consumers, they should have prevented the loss of share. One way to recoup market share is to focus on semi-urban India—the data reveals this geography has contributed 16.1% of total deposits, the highest in at least a decade. Given the competition in the metros and urban areas is stiff, they should try and mop up deposits in rural India.

In any case, the share of metro deposits is the lowest in five years probably reflecting a move by savers to products that offer better returns at a time when real returns were falling. Since households still account for the biggest share of the deposit pool and are looking for a better return on their savings, state-owned banks need to improve the quality of service and offer a suite of digital products. Else, they will continue to lose out.